FINANACE SECRETARIAT

GOVERNMENT OF KARNATAKA

No. FD 25 RLG 74.

KARNATAKA GOVERNMENT SECRETARIAT,
VIDHANA SOUDHA,
P. B. No. 5342, BANGALORE,
DATED THE 30TH APRIL 1974.

From

The Secretary to Government of Karnataka,
Finance Department, Bangalore.

To

The Secretaries to Government
and
The Heads of Departments.

Sir,

Sub:—Deduction of tax at source—Income-tax deductions from salaries during 1974-75.

I am directed to forward herewith a copy of Circular No. 131 (Letter No. F. 275/36/74-ITJ), dated 18th March 1974 from the Deputy Secretary to the Government of India, Ministry of Finance, Department of Revenue and Insurance, New Delhi with its Annexures for information and necessary action.

Suitable instructions may also be issued to all the subordinate officers of your department in this behalf.

Yours faithfully,

T. M. VASUDEVAN,
Under Secretary to Government,
Finance Department.

CIRCULAR No. 131.

F. No. 275/36/74.ITJ

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF REVENUE & INSURANCE)
NEW DELHI, 18TH MARCH 1974.

From

Shri K. R. Raghavan,
Deputy Secretary to the Government of India.

To

All State Governments.

Sir,

Subject:—Deduction of tax at source- Income-tax deduction from salaries during 1974-75.

I am directed to invite a reference to this Ministry's Circular No. 107 (F. No. 275/7/73-ITJ) dated the 7th March, 1973 on the subject of deduction of income-tax from salaries paid during the year 1973--74. The Finance Bill introduced in the Parliament on the 28th February 1974, *inter alia* prescribes the rates at which income tax is to be deducted during the financial year 1974-75 from income chargeable under the head "Salaries". These rates will be applicable to deduction of tax from salaries paid or payable on or after the 1st April, 1974. An extract of Sub-paragraph 1 of paragraph A of Part I of the First Schedule to the Finance Bill 1974, in so far as it relates to levy of income-tax on "Salaries" is enclosed (Annexure I). It is requested that pending the passing of the Finance Bill, 1974, deduction of tax from "Salaries,

may be made during the financial year 1974-75 according to the rates in the said Schedule. Three typical examples of calculations are given in Annexure II.

2. The substance of the main provisions in the law in so far as they relate to income from "salaries" on which tax is to be deducted at source during the financial year 1974-75 is given hereunder:—

(i) No tax will be deductible at source in any case unless the estimated salary income for the financial year exceeds Rs. 6,000.

(ii) The Income-tax (Amendment) Rules, 1974, notified by the Central Board of Direct Taxes on the 26th February 1974, have made certain modifications in the provisions relating to the valuation of the perquisites by way of free residential accomodation and motor cars provided by employers to their employees. The salient features of the new provisions have been explained in Boards' Circular No. 130 of March 16, 1974. The new provisions take effect from 2nd April, 1974 and will, therefore, have to be taken into account for the purposes of computing the estimated salary income of employees for the purposes of deduction of tax at source during the financial year 1974-75.

(iii) The taxable salary is to be computed after providing a standard deduction in respect of expenditure incidental to employment. The standard deductions to be allowed in amount equal to 20% of the salary up to Rs. 10,000/- and 10% of the salary in excess thereof, subject to a maximum of Rs. 3,000/- for this purpose, the term 'Salary' will include fees, commission, perquisites or profits in lieu of or in addition to salary, but will not include any payment received by the employee which are specifically exempt from tax under clauses (10), (10A), (11), (12) and (13A) of Section 10 of the Income-tax Act. Thus, house rent allowance which is exempt under Section 10 (13A) of the Income-tax Act will not be taken into Account for the purposes of computing the amount of the standard deduction. It may be noted that the standard deduction on the above basis is to be allowed irrespective of whether any expenditure incidental to employment is actually incurred by the employee or not. This deduction will, however, not be admissible in the case of retired pensioners who have not been in employment at any time during the financial year 1974-75. In the case of persons who retire from service in the course of the financial year 1974-75, the standard deduction will be calculated only with reference to the salary derived from employment during the financial year without taking into account the pension received by the employee. Further, the standard deduction will be limited to Rs. 1,000 only in cases (a) where the employee is in receipt of a conveyance allowance, or (b) where he is provided with any motor car, motor cycle, scooter or other moped by his employer (for use other wise that wholly or exclusively in the performance of his duties) or where he is allowed the use of any one or more motor cars (otherwise than wholly or exclusively in the performance of his duties) out of a pool of motor cars owned or hired by the employer. In this connection, it may be noted that the use of a motor car by the employee for the purposes of going from his residence to the place where the duties of employment are to be performed or from such place back to his residence will not be regarded as use of the motor car in the performance of his duties.

(iv) While computing the taxable income, the disbursing officers should allow a deduction of the whole of the first Rs. 2,000, 50 per cent of the next Rs. 3,000 and 40 per cent of the balance of the qualifying amount of payments towards life insurance premia, contributions to provident fund, contributions for participation in the Unit-linked Insurance Plan, 1971 made under Section 19 (1) (cc) of the Unit Trust of India Act, 1963 and deposits in a 10-year Account or 15-year Account under the post Office Savings Bank (Cumulative Time Deposit) Rules, 1959. The qualifying amount of these items taken together will be limited to 30 per cent of the estimated "salary" (after the deduction in respect of expenditure incidental to the employment of the assessee referred to in item (iii) above) or Rs. 20,000 whichever is less.

(v) The total income computed in accordance with the provisions of the Act should be rounded off to the nearest multiple of ten rupees by ignoring the fraction which is less than five rupees and increasing the fraction which amounts to five rupees or more, to ten rupees. The net amount of tax deductible should be similarly rounded off to be the nearest rupee.

(vi) No deduction should be made from the salary income in respect of any donations for charitable purposes. The tax relief on such donations will have to be claimed by the tax-payer separately at the time of the finalisation of the assessment. However, in cases where contributions to the National Defence Fund, Jawaharlal Nehru Memorial Fund or the Prime Minister's Drought Relief Fund are made by deduction from the pay bills, 65 per cent of such contributions may be deducted in computing the taxable income of the employee. Care should be taken to see that the aggregate of such contributions for the year is no less than Rs. 250. Disbursing officer should show the total contributions in the remarks column of the return under Section 206 of the Income-tax Act, 1961.

(vii) Attention is also invited to Section 276B, wherein it is provided that if a person without reasonable cause or excuse fails to deduct or after deducting fails to pay the tax as required under the provisions of Chapter XVIB of the Income-tax Act, 1961, he shall be punishable with rigorous imprisonment for a term which may extend to six months, and shall

also be liable to fine which shall be not less than a sum calculated at the rate of fifteen per cent per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

3. If any changes are made in the Finance Bill, 1974 before it is passed into law, the same will be communicated to you in due course.

4. These instructions may please be brought to the notice of all disbursing officers and State Undertakings under the control of the State Government.

Yours faithfully,

K. R. RAGHAVAN,

Deputy Secretary to the Government of India.

ANNEXURE—I.

Extract from the Finance Bill, 1974 First Schedule Part-III.

Paragraph 'A'.

Sub-Paragraph I.

In the case of every individual or Hindu undivided family or unregistered firm or other association of persons or body individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (31) of Section 2 of the Income-tax Act, not being a case to which Sub-Paragraph II of this Paragraph or any other paragraph of this Part applies.—

RATES OF INCOME-TAX.

1. where the total income does not exceed Rs. 6,000.	Nil
2. where the total income exceeds Rs. 6,000 but does not exceed Rs. 10,000.	12 per cent of the amount by which the total income exceeds Rs. 6,000;
3. where the total income exceeds Rs. 10,000 but does not exceed Rs. 15,000.	Rs. 480 plus 15 per cent of the amount by which the total income exceeds Rs. 10,000;
4. where the total income exceeds Rs. 15,000 but does not exceed Rs. 20,000.	Rs. 1,230 plus 20 per cent of the amount by which the total income exceeds Rs. 15,000;
5. where the total income exceeds Rs. 20,000 but does not exceed Rs. 25,000.	Rs. 2,230 plus 30 per cent of the amount by which the total income exceeds Rs. 20,000;
6. where the total income exceeds Rs. 25,000 but does not exceed Rs. 30,000.	Rs. 3,730 plus 40 per cent of the amount by which the total income exceeds Rs. 25,000;
7. where the total income exceeds Rs. 30,000 but does not exceed Rs. 50,000.	Rs. 5,730 plus 50 per cent of the amount by which the total income exceeds Rs. 30,000;
8. where the total income exceeds Rs. 50,000 but does not exceed Rs. 70,000.	Rs. 15,730 plus 60 per cent of the amount by which the total income exceeds Rs. 50,000;
9. where the total income exceeds Rs. 70,000.	Rs. 27,730 plus 70 per cent of the amount by which the total income exceeds Rs. 70,000.

SURCHARGE ON INCOME-TAX

The amount of income-tax computed in accordance with the preceding provisions of this Sub-paragraph shall be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent of such income-tax.

ANNEXURE—II.

TYPICAL EXAMPLES OF INCOME TAX CALCULATION

EXAMPLE I.

		Rs.	Rs.
1.	Total salary income ...	9,500	
2.	Contributions to General Provident fund ...	720	
3.	Payment towards life insurance premia ...	500	1,220
4.	Total salary income ...	9,500	
5.	Deduct :—standard deduction of 20% of salary in respect of expenditure incidental to the employment ...	1,900	
		7,600	
6.	Deduct: whole of the qualifying contributions towards G. P. F. and life insurance premia		1,220
7.	Taxable income ...		6,380
8.	Income-tax payable on Rs. 6,380 i. e. at 12 Per centum Rs. 380.		45.60
9.	Union surcharge at 10 per cent on income-tax		4.56
10.	Total tax payable		50.16
	Rounded off to		50.00

EXAMPLE-II

1.	Total salary income ...		18,325	
2.	Contributions to General Provident Fund	1,200		2,800
3.	Payment towards life insurance premia	1,600		
4.	Total salary income ...		18,325	
5.	Deduct ; standard deduction in respect of expenditure incidental to employment at Rs. 2,00 plus 10 per cent of the amount by which salary exceeds Rs. 10,000		2,832.50	
			15,492.50	
6.	Deduct : whole of the first Rs. 2,000 and 50 per cent of the balance qualifying contributions towards G. P. F. and life insurance premia (Rs. 2,000 plus 50 per cent of Rs. 800). ...		2,400	
7.	Taxable income ...		13,092.50	
	Rounded off to		13,090.00	
8.	Income-tax on Rs. 13,090 (Rs. 480 plus 15 per cent of Rs. 3,090)		943-50	
9.	Union surcharge @ 10 per cent ...		94.35	
10.	Total tax payable. ...		1,037.85	
	Rounded off to		1,038.00	

EXAMPLE-III

1.	Total salary income ...		28,588	
2.	Contribution to General Provident Fund.		3,500	
3.	Payment towards life insurance premium (The employee is in receipt of a conveyance allowance of Rs. 200 per month from his employer). ...		6,275	9,775
4.	Total salary income ...		28,588	
5.	Deduct : Standard deduction in respect of expenditure incidental to employment restricted to Rs. 1,000. ...		1,000	
			27,588	

6. Deduction an account of contributions towards G. P F. and life insurance premia. Paid Rs. 9,775 in all but limited to 30 per cent of Rs. 27,588 i. e., Rs. 8,276,40.

	On the first Rs. 2,000 (full) ...	Rs. 2,000	
	On the next Rs 3,000 per cent 50 per cent ...	Rs. 1,500	
	On the balance Rs. 3,276. 40 at 40 per cent ...	Rs. 1,310.56	
			4,810.56
7.	Taxable income ...		22,777.44
	Rounded off to		22,780.00
8.	Income-tax on Rs. 22,780 (Rs. 2230 plus 30 per cent of Rs. 2,780)		3,064.00
9.	Union surcharge at 10 per cent ...		306.40
10.	Total tax payable ...		3,370.40
	Rounded off to		3,370.00

M. N. SUBRAMANYAM,
Section Officer,
F. D. (Resources).

Subject :—**Economy Measures.**

READ.—

1. G. O. No. FD 45 BUD 73, dated 4th August 1973.
2. G. O. No. FD 88 BUD 73, dated 27th November 1973.

ORDER NO. FD 13 BUD 74, BANGALORE, DATED THE 16TH MAY 1974.

The Budget Estimates for 1974-75 show an overall deficit of Rs. 16.78 crores. It is necessary to make up this deficit through strict economies in expenditure on the non plan side. Therefore, in supersession of previous orders cited above, the following measures of economy are ordered with immediate effect :

(1) No new posts not connected with Plan Schemes shall be created. Even if posts are created under Plan Schemes, these should be filled by transfer of surplus personnel from existing posts, wherever possible.

(2) There shall be no re-organisation of Departments involving additional expenditure.

(3) Proposals for fresh subsidies and grants-in-aid will not be entertained.

(4) Tax exemption will not be granted.

(5) No Department will be given additional budget allotment on any account.

(6) No new Government vehicles will be purchased.

(7) No new buildings shall be taken up for execution.

(8) No work of any kind will be taken up in anticipation of sanction.

(9) All transfers, except those arising from death, retirement, promotion or disciplinary proceedings, shall be deferred.

(10) There shall be no Seminars and Conferences.

(11) Deputation of Government nominees to Seminars, Conferences and training programmes outside the State shall be avoided.

(12) Government will not organise any exhibitions during the year, nor will Government Departments participate in exhibitions of any kind.

(13) Entertainment expenditure shall be restricted to the absolute minimum. This shall be incurred only in connection with visits of foreign dignitaries. Even in such cases, the number of invitees shall be limited to the minimum necessary.